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ACTION AF-00

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	E-00	UTED-00	FOE-00	VC-00	FRB-00	TEDE-00	INR-00
	LAB-01	VCE-00	AC-00	NSAE-00	OMB-00	ACE-00	SP-00
	SSO-00	STR-00	FMP-00	BBG-00	IIP-00	G-00	SAS-00

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SUBJECT: BOTSWANA'S ECONOMIC SLOWDOWN FUELS POVERTY

REF: (A) GABORONE 264, REF (B) 838

1. Summary. Botswana's "middle income status" masks its rising poverty and unemployment that could impact future political stability. The economy is declining, with real GDP growth expected to be a sluggish 2.3 percent in 2005. While the central government's official statistics put the unemployment rate at 23.8 percent and the percentage of people living in poverty at 30 percent, discussions with government officials and visits to rural areas reveal rates of unemployment outside the major urban centers of Gaborone, Francistown and Maun that approach 70 or 80 percent. An equal percentage of the population in these villages and towns still relies on pastoral cattle or goat farming for their prime source of income. With most infrastructure and development projects frozen, basic services absent, and pervasive drought, the depth of poverty and unemployment is likely to worsen. End Summary.

National Poverty Reduction Strategy

2. The GOB adopted a National Strategy for Poverty Reduction in late 2003. The United Nations Development Program, which is the implementing partner for Botswana's national strategy, has identified five target areas for a three-year pilot poverty program, which were established through an inclusive consultation period, and it has just begun the implementation stage.

3. First, the GOB called for strengthening capacity to measure and analyze poverty. The lack of disaggregated poverty information presents a problem to policy makers. This component would create a poverty profile and map, a database, and establish a system for updating poverty statistics with the Household Income and Expenditure Surveys. Second, it aims to build capacity for the Multi-sectoral Committee on Poverty Reduction (MSCPR). The MSCPR is to act as a quasi-board of directors for a Poverty Observatory, which will be a unit of the Ministry of Finance and Development Planning, charged with overseeing the poverty reduction strategy's implementation. Third, there is a community renewal component to help people take control of their own development process. Fourth, the program prioritizes trade, investment and SMME development, to include advocacy for policy reform and implementation, such as support for the preparation of a Competition Law following the adoption of Botswana's competition policy on August

4. Finally, the program supports access to financial services for the poor through some limited technical support for Women's Finance House Botswana, a local micro-finance lender.

5. According to the director of the poverty program at UNDP, most of these initiatives have not yet really taken off. For example, support for the MSCPR through the hiring of a director for the Poverty Observatory will not be in place until September, and the Community Renewal Program has not yet even identified the target pilot communities. In a disturbing comment, the Deputy Council

Secretary for the western Kgalagadi District, Mr.

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Mwualefe, told EconOff that the national strategy "doesn't address the real issues facing the poor."

Infrastructure Development Frozen

16. With the national strategy barely past its inception phase, the battle against poverty and unemployment relies on existing government structures and spending programs. However, with the Ministry of Finance and Development Planning facing recurrent budget deficits (ref A), a slowing economy, and high HIV/AIDS expenditures, it has frozen most of its planned infrastructure development projects and left many projects unfinished.

17. In the northern village of Nata, the Community and Social Development Officer told EconOff that nearly all of the planned infrastructure projects have been frozen due to lack of funding. Projects such as refurbishing the local health clinic, constructing a new senior secondary school, staff housing construction, electrification of government offices, and many more, have either been halted or have not begun.

Lack of Access to Basic Services

18. The freeze in government infrastructure and development projects highlights the lack of access to basic services for most rural villages. Lack of access to transportation, electricity, healthcare, and even education (see septels on the impact of poverty on education and HIV/AIDS) contributes to a dearth of employment opportunities and undermines the ability of community based development programs to gain sustainability. Local economic projects, particularly for those villages that are far removed from the main highways, have a difficult time bringing products to market.

19. Donkey-drawn carts are typically the only form of local transportation apart from the few government-owned vehicles that may be passing through towns and villages. Schools and even government administration buildings lack access to communication and electricity, and the provision of medical care to the sick is hampered by the long distance from local clinics and hospitals of most villages. These problems common in the rest of Africa are equally clear in Botswana despite its status as a middle-income country.

Drought Relief Keeps Heads Above Water

10. On July 20, President Festus Mogae officially declared a drought and announced a series of programs to alleviate the impact of low rainfall, particularly on those communities that rely on livestock farming as their prime income source. Among the drought programs are bush clearing and construction of staff housing, classroom blocks and administration buildings. Many of the projects are aimed at supplementing the regional development plans' priorities to jumpstart projects that were frozen due to a lack of resources as well as create short-term employment opportunities for many rural villages. However, these short-term employment opportunities have become a yearly exercise as a result of drought declarations in each of the past five years, according to the District Council Deputy Secretary in Ghanzi. Workers for these programs are

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paid a paltry 10 pula (\$1.80) for six hours of work.

Government Support Programs Lack Sustainability

11. In addition to the drought relief programs announced by President Mogae, the district councils and central government have instituted a range of policies and programs. The government provides food rations and a monthly stipend (\$12/month) to those individuals that are classified by government social workers as destitute, which buys a good deal of political cover. There is also a low income housing program and some small grant schemes for community development projects.

¶12. Yet the programs aimed at sustainable poverty reduction are having little success. For example, as part of the GOB's efforts to support the ethnic minority San/Basarwa who are living in relocated settlements, three collective farms have been established to coordinate their livestock production and housing. Each San/Basarwa family is given five head of cattle and encouraged to participate in the collective farm, whose profits are to be reinvested in their communities for development purposes. Yet while these farms were set up nearly five years ago, when EconOff asked the district council staff in Ghanzi what projects had been implemented with the money earned from these collective farms, the answer was a reluctant zero.

Agriculture Still Prime Income Source

¶13. While agriculture as a percentage of GDP makes up only 2.4 percent of the economy, in the western districts of Kgalagadi, Ghanzi, and Northwest, roughly 70-80 percent of the population still relies on pastoral cattle and goat farming for their principal source of income. While discussions are ongoing within the Ministry of Agriculture to institute export-parity pricing for beef exports at the government monopoly Botswana Meat Commission (BMC), a study commissioned by USAID states that the livestock sector has been experiencing a steady decline over the course of the past 20 years (ref B). Without adequate access to transportation services to bring livestock to market, many cattle farmers sell their herds for significantly reduced prices to the larger commercial farming businesses. According to the Chairman of BMC, poor animal husbandry management techniques exacerbate the poor economic returns generated for rural cattle farmers.

Unemployment Likely to Rise

¶14. With the economy slowing down and government spending on hold, unemployment is likely to rise. The Botswana Institute for Development Policy Analysis (BIDPA) is estimating that the national unemployment rate will rise by nearly two percent in the next two years to 25.2 percent. Compounding the problem is a current freeze on government hiring. According to the Assistant Council Secretary for the Okavango Sub-District, the central government has frozen all new hiring for both professional and industrial class workers at the district level. With government employment currently making up 40 percent of total formal employment in Botswana, this hiring freeze will negatively impact the employment trend.

¶15. The Botswana Confederation of Commerce, Industry, and Manpower, the nation's principal private sector association, has released a study that blames the government for the nation's lack of economic diversification and for the "unacceptably high" level of unemployment. This is a result of its implementing distributive economic policies instead of building incentives for business creation, concludes the report.

¶16. As an example of the difficulties facing Botswana, the Deputy Council Secretary for the Kgalagadi District, Mr. Mwuafele, told Econoff, when he graduated from the University of Botswana in 1993, he had a government job lined up before he took his final exams. Today, he said, many university graduates are returning to their home villages dismayed about their lack of employment options.

¶17. In essence, with government jobs drying up, so are the majority of employment opportunities, particularly outside the principal economic centers of Gaborone and Francistown where the majority of the population relies on government employment or livestock farming for their income. The Council Secretary for the Northwest District told EconOff,

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"Today is not like in the past for university graduates," and the Community and Social Development Officer in the northwestern town of Gumare said, "There is no prospect for employment for students upon graduation" from secondary school. A gas station attendant in the western town of Kang told Econoff that roughly 80 percent of the city was unemployed, and when asked if he thought conditions were likely to improve, he simply laughed and said,

"no."

Economy Slows Down

118. The state of unemployment will be exacerbated by an economy that is slowing down significantly in 2005. The Ministry of Finance predicted in February that real GDP growth in 2005 would slow to between 4 and 5 percent from its 2004 level of 5.7 percent (ref A). But most analysts now agree that that prediction was overly optimistic. BIDPA is forecasting only 2.3 percent real GDP growth for 2005. BIDPA is also predicting that unemployment will rise nearly 1.5 percent to 25.2 percent by 2006.

119. The Managing Director of Elliott Movers, which does relocations for expatriates, told EconOff that he is currently moving twice as many people out of the country as he is into the country as a result of a drying up of government contracts, a principal source of income for private sector firms. Ashoke Kachroo, the Director of Engineers International and the Chairman of the American Business Council, says that the construction industry, which is a principal driver of the economy, "has come to a nearly complete stop. The problem is not just that they're not building, but they are no longer contracting engineers to develop plans for future projects." This last point could mean that lagging infrastructure development is not merely a short-term problem but a protracted reality.

Comment

120. With the national poverty program just now getting off the ground, persistent drought, government revenue stretched thin, and the economy facing a significant slowdown, it is easy to conclude that both unemployment and poverty will worsen. The more troubling prospect is that this downward trend may not be short-lived. Botswana's efforts to diversify its economy have not yet moved the country away from its over-reliance on diamonds. Diamond wealth still makes up 35 percent of national GDP and 50 percent of government revenue. Many private businesses in Botswana rely heavily on government contracts for the bulk of their business.

121. As competition for increasingly scarce government resources heightens, the specter of corruption could also rise. This type of speculation is difficult for a country that has been recognized by Transparency International as the least corrupt country in Africa and by the World Economic Forum as one of the two most open economies in Africa. But without immediate success in diversifying the economy, Botswana could be faced with prolonged declines in real per capita income. The CEO of Motswedi Securities, a brokerage house in Gaborone, put it succinctly when discussing the short to medium term prospects for Botswana's economy when he said plainly, "I'm very worried." AROIAN

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